



MEMORANDUM

DATE: December 18, 2020
TO: Mayor & Council
THROUGH: Ken Jones, Deputy City Manager - Chief Financial Officer (8504)
FROM: Mark Day, Municipal Budget Director (8697)
SUBJECT: FY21 General Fund Local Sales Tax Update

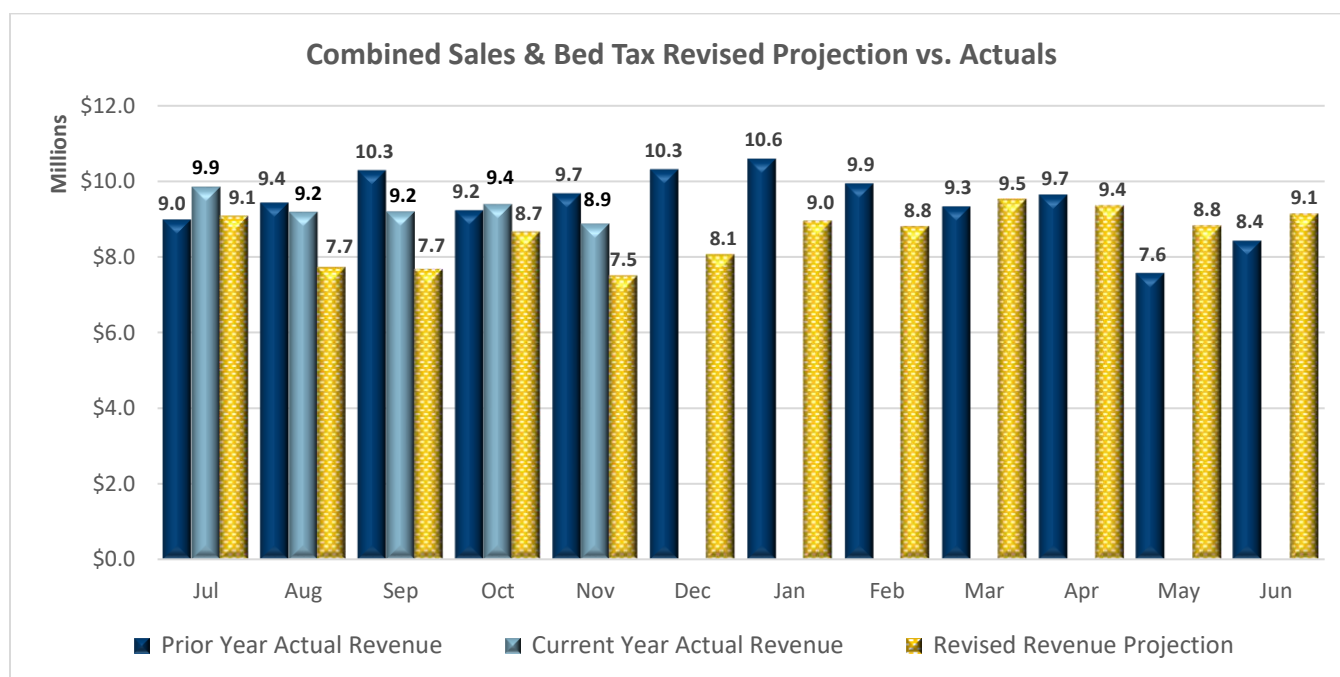
Background

The Municipal Budget Office, as an adopted Government Finance Office's Association (GFOA) best practice, routinely compares the City's revenue projections to actual activity to monitor financial performance. This practice provides the opportunity to adjust for any significant variances to ensure continuity of programs and service delivery. Due to the uncertainty of the economic impacts of the COVID-19 pandemic on City revenues, this monitoring function will be crucial as we progress through the fiscal year in determining if projected year-end revenue targets will be met.

General Fund Sales Tax & Bed Tax Collections

The purpose of this memo is to provide a "snapshot" of the FY 2020-21 General Fund sales tax and bed tax revenue collections through the month of November 2020. The General Fund portion of the city sales tax (1.2%) and the bed (transient lodging) tax (5%) combined represent the General Fund's largest revenue source.

Although sales and bed tax are not budgeted on a monthly, the graph below displays FY 2020-21 General Fund sales tax and bed tax revenue collections, to date, compared to the revised revenue projection amount and FY 2019-20 actuals collections. The FY 2020-21 revised revenue projection amount is based on the most recent economic data available and considers the anticipated economic impacts of the COVID-19 pandemic.



Highlights

General Fund sales tax and bed tax revenues for the month of November are 18.5% above the revised revenue projection (\$8.9 versus \$7.5M) amount but 8.3% below prior year collections (\$8.9M versus \$9.7M). Total fiscal year-to-date General Fund sales tax and bed tax collections through November are 14.5% above the revised revenue projection amount and 2.3% below prior year collections.

Revenues are exceeding revised revenue projects due mainly to higher than anticipated activity in the retail and rentals taxable activities that has offset declines in the hotel, restaurant/bar and amusement taxable activities. Revenues have also been bolstered by the collection of tax on online purchases. This revenue stream was first received in November 2019, so the November 2020 results are showing the weakness in economic activity now that year over year comparison has the same basis. In addition, some one-time revenues received in July helped to bolster total revenue collections year-to-date.

Although local sales tax collections are currently exceeding the revised revenue projections, it's important to note that there is still much uncertainty about the on-going impacts of the COVID-19 pandemic on the local and State economy. It is anticipated that the expiration of the enhanced unemployment benefits and the one-time stimulus payments will begin to have an impact on future local sales tax revenues. The Municipal Budget Office continues to review the most recent economic data available and monitor for any significant variances from the revised revenue projections.

On-Going Revenue/Expense Monitoring

The Municipal Budget Office will continue to prepare the Quarterly Financial Report that details revenue and expenses for all the City's major funds as well as the monthly tax statistical report that provides details on the City's sales tax revenues. Both reports are distributed via the Friday Information Packet and are posted on the Municipal Budget Office web page www.tempe.gov/budget.